

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 ROME 004499

SIPDIS

FROM U.S. MISSION IN ROME

STATE FOR PRM/P, EUR/WE AND IO/D
USAID FOR A/AID, AA/DCHA AND PPC/DC
USDA/FAS FOR RTILLSWORTH AND ICD
BRUSSELS FOR USAID
USUN FOR CSERWER AND SMCLURG
NSC FOR JDWOKEN

UNCLASSIFIED

PAGE 02 ROME 04499 01 OF 02 170654Z
OMB FOR TSTOLL
PARIS ALSO FOR OECD

E.O. 12958: N/A

TAGS: [EAID](#) [EAGR](#) [AORC](#) [PREF](#) [EAGR](#) [AORC](#) [PREF](#) [KUNR](#) [WFP](#) [UN](#) [KUNR](#) [EAID](#) [WFP](#) [UN](#)
SUBJECT: FAO'S EXTERNAL AUDITOR RECOMMENDS OVERHAUL OF
ORGANIZATION'S INTERNAL CONTROLS

SUMMARY

1. FAO'S EXTERNAL AUDITOR, WHILE ISSUING AN UNQUALIFIED AUDIT OPINION ON FAO'S BIENNIUM ACCOUNTS FOR 2000-2001, HAS RAISED CONCERNS RELATED TO THE ADEQUACY AND GENERAL EFFECTIVENESS OF FAO'S INTERNAL AUDIT MECHANISM. THE EXTERNAL AUDITOR HAS OUTLINED A NUMBER OF IMPROVEMENTS REQUIRED INCLUDING ESTABLISHMENT OF AN INDEPENDENT AUDIT COMMITTEE, CLEARER DELINEATION OF THE ROLE OF FAO'S INSPECTOR GENERAL, AND A REINVIGORATED INTERNAL AUDIT DIVISION. THE FAO, APPARENTLY STUNG INTO ACTION BY THE SHARP CRITICISM, BASICALLY ACCEPTED ALL RECOMMENDATIONS AND PRESENTED AN ACTION PLAN FOR IMPLEMENTATION LAST WEEK TO THE FAO FINANCE COMMITTEE. THE VACANCY FOR THE INSPECTOR GENERAL'S POSITION HAS ALREADY BEEN POSTED ON THE FAO WEBSITE. END SUMMARY.

UNCLASSIFIED

PAGE 03 ROME 04499 01 OF 02 170654Z
BACKGROUND

2. FAO HAS PRESENTED ITS CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2000-2001 BIENNIUM, WHICH WILL BE REVIEWED AT THE THIRTY-SECOND SESSION OF THE FAO CONFERENCE NOVEMBER 29-DECEMBER 10. THE REPORT OF FAO'S EXTERNAL AUDITOR (THE FRENCH GOVERNMENT'S COUR DES COMPTES) CENTERS ON THE CHANGES INTRODUCED DURING THE BIENNIUM UNDER REVIEW IN TERMS OF DECENTRALIZATION AND IMPLEMENTATION OF NEW INFORMATION SYSTEMS (ORACLE INTEGRATED SOFTWARE IN PARTICULAR) WHICH HAVE LED TO GREATER RESPONSIBILITY BEING GRANTED TO BUDGET HOLDERS BOTH AT HEADQUARTERS AND IN THE FIELD. THE EXTERNAL AUDITOR CONTENDS THAT "THESE CHANGES SHOULD HAVE LED TO A REASSESSMENT OF INTERNAL CONTROLS."

STATUS OF FAO'S INTERNAL AUDIT

3. AFTER REVIEWING FAO'S INTERNAL CONTROLS, THE EXTERNAL AUDITOR LISTED THE FOLLOWING DEFICIENCIES:

- INTERNAL AUDIT DIVISION HAD A LARGE SCOPE OF RESPONSIBILITIES BUT FURNISHES INADEQUATE AUDIT COVERAGE;
 - THE AUDIT DIVISION SUFFERS FROM RECURRENT VACANCIES AND LACK OF ICT EXPERTISE;
 - FAO LACKS A FORMAL AUDIT PLAN;
 - FAO FAILS TO CONDUCT REAL RISK ASSESSMENTS (I.E., REVIEWING PAST CASES OF FRAUD AND MISUSE OF THE ORGANIZATION'S RESOURCES IN ORDER TO DETERMINE THE FACTORS
- UNCLASSIFIED

PAGE 04 ROME 04499 01 OF 02 170654Z
THAT FACILITATED THEIR HAPPENING AND RECOMMENDING WAYS OF PREVENTING FUTURE OCCURRENCE);

- MAJOR INADEQUACIES ARE NOTED IN FAO'S AUDIT MANUAL(S) (ADJUDGED BY THE EXTERNAL AUDITOR TO BE BELOW UN STANDARDS);
- INADEQUATE ATTENTION IS PRESENTLY PAID TO COMPARISON BETWEEN PLANNED AND ACTUAL AUDITS;
- FOR SOME AUDIT ASSIGNMENTS, FORMAL REPORTS ARE LACKING. FAO HAS NO STANDARDIZED AUDIT REPORT FORMAT;
- INCOMPLETE AUDIT RECOMMENDATIONS ARE OFTEN OBSERVED. GAPS EXIST IN REPORTING ON IMPLEMENTATION OF PAST AUDIT RECOMMENDATIONS;
- FAO, IN THE BIENNIUM UNDER REVIEW, WAS, IN EXTERNAL AUDITOR'S VIEW, NOT GETTING "ADEQUATE VALUE" FROM LOCALLY

SELECTED AUDITING FIRMS AT THE FIELD LEVEL.

RECOMMENDATIONS OF THE EXTERNAL AUDITOR

14. IN THIS LAST REPORT OF THE PRESENT EXTERNAL AUDITOR (HAVING COMPLETED AN EIGHT-YEAR MANDATE), THE COUR DES COMPTES MAKES A NUMBER OF SPECIFIC RECOMMENDATIONS RELATED TO REVITALIZING FAO'S INTERNAL AUDITING APPARATUS:

UNCLASSIFIED

UNCLASSIFIED PTQ1945

PAGE 01 ROME 04499 02 OF 02 170654Z
ACTION PRM-00

INFO LOG-00 NP-00 AID-00 AMAD-00 CIAE-00 WHA-00 SRPP-00
EB-00 EUR-00 UTED-00 TEDE-00 INR-00 IO-00 L-00
MMP-00 NSAE-00 NSCE-00 OES-01 OIC-02 OIG-03 OMB-01
TEST-00 TRSE-00 SAS-00 /007W
-----E84D4F 170741Z /38

P 170630Z SEP 02
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 5860
INFO EU MEMBER STATES COLLECTIVE
AMEMBASSY OTTAWA
AMEMBASSY BERN
USDA FAS WASHDC 2273
USEU BRUSSELS 2804
USMISSION USUN NEW YORK

UNCLAS SECTION 02 OF 02 ROME 004499

SIPDIS

FROM U.S. MISSION IN ROME

STATE FOR PRM/P, EUR/WE AND IO/D
USAID FOR A/AID, AA/DCHA AND PPC/DC
USDA/FAS FOR RTILLSWORTH AND ICD
BRUSSELS FOR USAID
USUN FOR CSERWER AND SMCLURG
NSC FOR JDWOKEN

UNCLASSIFIED

PAGE 02 ROME 04499 02 OF 02 170654Z
OMB FOR TSTOLL
PARIS ALSO FOR OECD

E.O. 12958: N/A

TAGS: [EAID](#) [EAGR](#) [AORC](#) [PREF](#) [EAGR](#) [AORC](#) [PREF](#) [KUNR](#) [WFP](#) [UN](#) [KUNR](#) [EAID](#) [WFP](#) [UN](#)
SUBJECT: FAO'S EXTERNAL AUDITOR RECOMMENDS OVERHAUL OF ORGANIZATION'S INTERNAL CONTROLS

-ESTABLISHMENT OF AN INTERNAL AUDIT SECTION ON FAO'S INTRANET CLEARLY DELINEATING ITS ORGANIZATIONAL STATUS AND MANDATE, ORGANIZATIONAL CHART, WORK PLAN FOR THE CURRENT YEAR, ANNUAL ACTIVITY REPORTS FOR AT LEAST THE LAST TWO BIENNIA, SETTING UP A CONFIDENTIAL "HOTLINE" TO REPORT FRAUD, WASTE AND ABUSE;

-AUDIT TIME DEDICATED TO FAO HEADQUARTERS SHOULD BE INCREASED SIGNIFICANTLY AND AREAS SUCH AS ORACLE FINANCIAL IMPROVEMENT IMPLEMENTATION, INVESTMENTS AND OTHER TREASURY FUNCTIONS BE MADE PRIORITY OBJECTIVES IN VIEW OF CLEAR RISKS AND SHORTCOMINGS. INTERNAL AUDIT SHOULD DOWNSIZE ATTENTION SPEND ON REVIEWING FAO'S COMMISSARY AND CREDIT UNION (WHICH ALSO FALL UNDER THE EXTERNAL AUDITOR'S PURVIEW);

-THE MANDATE OF FAO'S INSPECTOR GENERAL NEEDS TO BE MADE EXPLICITLY CLEAR. IN PARTICULAR, A SPECIFIC UNIT FOR INVESTIGATION SHOULD BE ESTABLISHED AND STAFFED WITH PERSONS WITH APPROPRIATE COMPETENCE AND SKILLS (EG., LAWYERS, CERTIFIED FRAUD EXAMINERS, EX-POLICEMEN, ETC.);

-LISTING OF FUTURE VACANCIES FOR FAO'S INSPECTOR GENERAL'S
UNCLASSIFIED

PAGE 03 ROME 04499 02 OF 02 170654Z
POST ON FAO'S INTRANET AND INTERNET SITES ALONG WITH ATTACHED JOB DESCRIPTION;

-ESTABLISHMENT OF AN INDEPENDENT AUDITING COMMITTEE IS PROPOSED, POSSIBLY CHAIRED BY AN EXTERNAL PERSON AND TO INCLUDE A REPRESENTATIVE FROM ANOTHER UN ORGANIZATION.

15. FAO MANAGEMENT PRESENTED A DETAILED PLAN OF ACTION TO THE FINANCE COMMITTEE AT MEETINGS SEPTEMBER 9-13 WHICH ACCEPTED VIRTUALLY ALL THE RECOMMENDATIONS MADE BY THE EXTERNAL AUDITOR AND OUTLINED A TIMETABLE FOR IMPLEMENTATION. THE INSPECTOR GENERAL, WHOSE MANDATE HAD BEEN EXTENDED BY THE DIRECTOR GENERAL ANNUALLY FOR FIVE CONSECUTIVE YEARS ALTHOUGH THE INCUMBENT HAD REACHED MANDATORY RETIREMENT AGE, WILL BE REPLACED, AND THE VACANCY

HAS ALREADY BEEN POSTED ON THE FAO WEBSITE. ESTABLISHMENT OF AN AUDIT COMMITTEE WAS DEEMED TO BE A VERY USEFUL STEP AS WELL TO REESTABLISH CREDIBILITY OF THE INTERNAL AUDITOR. FINANCE COMMITTEE MEMBERS WILL MONITOR COMPLIANCE WITH THE EXTERNAL AUDITOR'S RECOMMENDATIONS AND INCORPORATE THE ACTION PLAN INTO THE INCOMING AUDITOR'S PROGRAM OF WORK.

COMMENT

16. THE OUTGOING EXTERNAL AUDITOR MAY HAVE BEEN UNUSUALLY CANDID IN ASSESSING "FLAWS" IN FAO'S INTERNAL AUDITING PROCESS IN THIS REPORT. HOWEVER, THE FACT REMAINS THAT THE SHORTCOMINGS ARE NOW CLEARLY IDENTIFIED AND THE FAO
UNCLASSIFIED

PAGE 04 ROME 04499 02 OF 02 170654Z
RECOGNIZES THESE RECOMMENDATIONS REQUIRE IMMEDIATE ATTENTION. WHILE REPRESENTATIVES OF DONOR COUNTRIES CHARACTERIZED THE REPORT AS "DEVASTATING" REPRESENTATIVES OF DEVELOPING COUNTRIES DEFENDED THE ORGANIZATION AND THE DIRECTOR GENERAL. THIS "LAST HURRAH" OF THE COUR DES COMPTES REPORT WILL, IN USMISSION'S VIEW, EQUIP THE U.S. AND OTHER REPRESENTATIVES OF DONOR COUNTRIES ON THE FINANCE COMMITTEE TO VIGOROUSLY PURSUE THE REFORM OF FAO'S INTERNAL OVERSIGHT CAPABILITIES. HEILEMAN

UNCLASSIFIED

>
2002ROME04499 - Classification: UNCLASSIFIED